INFO

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Information for Members and Employers: Multiplication Rule

Within the context of the Multiplication Rule, the law permits portions of the severance pay or other payments associated with ending the employment relationship to be contributed to the company pension on a tax-privileged basis, as one-time payments.

As a rule, severance pay can be issued up to three months before the end of the employment relationship.

Alternatively, the Multiplication Rules can also be applied after the end of the employment relationship if the contribution amount is agreed no later than the time when the employment relationship ends. Tax-exempt multiplication as per § 3 No. 63 EStG can be claimed by any departing employee.

Taxable multiplication as per § 40b EStG, on the other hand, is granted only to insured parties who have legally paid taxes on at least the amount defined in § 40b EStG before 1 January 2018.

Thus the following options apply:

> Tax-exempt multiplication as per § 3 No. 63 Sentence 3 EStG [Income Tax Act]

The maximum rate for the tax-exempt Multiplication Rule is calculated as follows:

- 4% of the contribution assessment ceiling (west) in the statutory pension insurance scheme (in 2026: EUR 4,056)
- multiplied by the number of calendar years during which the employment relationship was in effect
- up to 10 years of service can be offset (in 2026: EUR 40,560)

> Taxable multiplication as per § 40 b EStG

The flat-rate eligible maximum contribution is calculated as follows:

- EUR 1,752
- multiplied by the number of calendar years during which the employment relationship was in effect
- reduced by the contributions that were taxed at a flat rate during the current year as well as the previous six years as per § 40 b para. 2 Sentence 4 (applies to occupational pension contracts)
- if the volume as per § 40 b EStG is fully exhausted, the difference up to the maximum rate as per §3 No. 63 can also be contributed

Please note that the tax-exempt amount as defined by the Multiplication Rule is generally not exempt from social security contributions. However, any severance pay provided for the loss of a job in the sense of the Federal Social Court ruling dated 21 February 1990 - 12 RK 20/88 - shall not be considered part of the compensation subject to social security contributions.

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Sample calculations

Multiplication Rule as per § 3 No. 63 EStG (tax-exempt)

Ms. K. receives severance pay from her employer to the amount of EUR 32,000. She began working for her employer in 2015. She pays EUR 613.55 into her occupational pension each year.

Start of the employment relationship: 1 June 2015; End of the employment relationship: 31 January 2026;
Time with the company: 12 years; Contributions as per § 3 No. 63 EStG: EUR 7,362.60 (12 x EUR 613.55)

Calculating the maximum required one-time contribution as per § 3 No. 63 EStG

10 years with the company x EUR 4,056 (4 % of the contribution assessment ceiling in the statutory pension insurance scheme in 2026) equals **EUR 40,560**. EUR 7,362.60 that were already contributed to the company pension on a tax-exempt basis as per § 3 No. 63 EStG are not deducted.

Multiplication Rule as per § 40 b EStG (taxable)

Mr. M. leaves the company as of 31 January 2026 and receives severance pay from his employer to the amount of EUR 35,000. Mr. M. previously received a pension commitment from his employer in 2004. From 2016-2018 he contributed EUR 1,752 / year (a total of EUR 5,256) to his company pension scheme, subject to flat-rate taxation, and opts for the Multiplication Rule as per § 40 b EStG.

Start of the employment relationship: 1 June 2004; End of the employment relationship: 31 January 2026;
Time with the company: 23 years; Contributions as per § 40 b EStG for the past 7 years: EUR 5,256 (3 x EUR 1,752)

Calculating the maximum required one-time contribution as per § 40 b EStG

Since Mr. M. is choosing the taxable option (20% flat-rate tax), his entire employment period is included in the calculation.

23 years with the company x EUR 1,752 (= EUR 40,296) minus EUR 5,256 (3 x EUR 1,752) equals **EUR 35,040**.

Calculating the additional possible one-time contribution as per § 3 No. 63 EStG

Since by choosing the Multiplication Rule as per § 40 b EStG, Mr. M. is not fully exhausting the maximum rate as per § 3 No. 63 EStG (in 2026: EUR 40,560), he can also use the Multiplication Rule as per § 3 No. 63 EStG on a pro-rated basis. In this case, the EUR 35,040 will be deducted from the maximum required multiplication volume as per § 3 No. 63 EStG. This produces an **additional EUR 5,520** (EUR 40,560 – EUR 35,040) that can be contributed as a tax-exempt volume as per § 3 No. 63 EStG.

As of: 01/2026

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